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CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

THE SOVIET EARTH SATELLITE

The TASS announcement of the successful launching of an earth satellite was made on 4 October after the satellite had completed more than one full circuit of the earth.

The announced weight of the satellite, termed sputnik (fellow traveler) by the Russians, may be slightly less than the announced 185 pounds but, in any case, probably required a launching vehicle of ICBM proportions. With the announced load of instruments, sputnik will permit verification or correction of theoretical calculations concerning earth satellites and ICBM's, give data on radio communica-

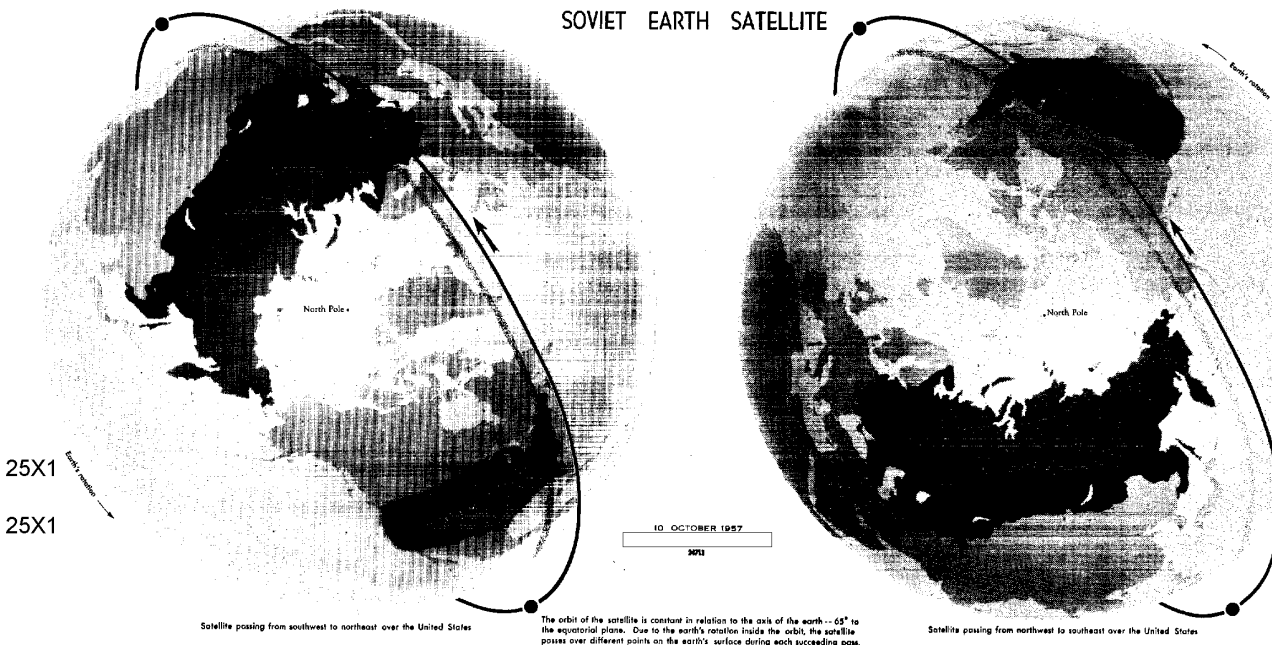
tions and drag at high altitudes, and provide information for improving the design and operation of future satellites and their launching and instrumentation installations.

Soviet statements imply that they will launch several more during the coming year.

Communist Exploitation

While Soviet propaganda media concentrated on hailing the "brilliant victory of Soviet science" and extolling the superiority of the socialist system which made it possible,

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Khrushchev lost no time in attempting to exploit the success for the USSR's political advantage. He appears confident that, following the ICBM test, the successful launching of the satellite and the announcement of a test of a "hydrogen device of a new design" will make a profound impression on neutralist and other sectors of world opinion which will greatly strengthen the USSR's position vis-a-vis the West.

Khrushchev sought to drive home the significance of these developments by declaring on 8 October that the satellite and long-range rockets mean that fighter and bomber aircraft "can be put into museums." He said that "rockets are terrible, pitiless weapons" and pointedly advised "those responsible for the fate of peoples" to "think seriously about these things."

Soviet diplomacy has been given a powerful argument for fostering the trend in many areas toward a neutralist position. Pravda on 7 October predicted that the Soviet successes will force the United States to revamp some of its foreign policies and stated that American "ruling circles" must face up to three questions: the necessity of peaceful coexistence, an end to the armaments race, and an end to the cold war.

The Soviet successes will strengthen Moscow's hand in its drive to expand Soviet influence in the Middle East, Africa, and Asia. Khrushchev seized the opportunity to score further propaganda gains in the Arab world by warning the United States and its friends in the Middle East not to intervene in Syria. Claiming that

the Turks had denuded their frontier with the USSR by concentrating forces against Syria, he suggested that "they should have a good think about this."

Soviet scientific achievements will probably boost Khrushchev's prestige at home and at least temporarily strengthen his position in dealing with any opposition which may remain within the higher echelons of the Soviet Communist party. Moscow has been stressing heavily the ideological significance of the earth satellite success and the USSR's desire to use science for peaceful purposes.

Soviet comment, the greatest proportion of which has been beamed to the domestic audience, has followed the theme in the TASS statement of 4 October which declared, "It seems that the present generation will witness how the free and conscious labor of the people of the new socialist society turns even the most daring of man's dreams into a reality." The prominent Soviet scientist, P. L. Kapitsa, said the USSR was able to launch the satellite first because the Soviet system makes it "easier to organize, inspire, and direct" teams of scientists and engineers. Pravda added that Soviet science "cannot fail to win first place" in the world because of the "constant and effective support of the Communist party."

Moscow radio contrasted Western efforts to use scientific achievements "for the aim of total destruction" with the Soviet goal of "speeding up at a gigantic pace the progress of civilization." It noted the pioneering role of Soviet science in the peaceful use of the atom, jet transport planes, and

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"highly scientific utilization of the achievements of rocket engineering," and Khrushchev bragged that "we have more up our sleeves" in addition to the earth satellite and the ICBM.

In Eastern Europe, radio stations from Warsaw to Tirana are broadcasting news of the satellite launching, repeating Soviet dispatches and quoting world reaction. The Bulgarian UN delegate warned the General Assembly on 7 October that the West must now seek peace on Soviet terms. The most voluminous and threatening comment, however, emanated from East Germany. Ulbricht declared that the satellite "is witness to the further transformation of the balance of power in the world in favor of the USSR, the socialist camp, and the countries in the wide zone of peace."

The Chinese Communist reaction, unlike the initial Soviet comments, was quick to link the satellite to military aspects of Soviet ICBM capabilities. Peiping declared that American claims to military supremacy are now empty and that "American hopes for world hegemony have been shattered."

The Yugoslav paper *Politika* credited Soviet scientists with a notable achievement, but said such success would never have been possible without a worldwide effort.

Free World Reaction

Western European press and radio sources were virtually unanimous in emphasizing the magnitude of the Soviet achievement while expressing concern at the possibly adverse consequences for the free world. They evidenced belief that this

achievement has great military implications and that it is not in safe hands, and expressed hope that the USSR would share the fruits of this development. The belief that the Western countries through joint efforts could surpass Soviet scientific achievements also was expressed.

Of the countries of the Middle East, only Egypt commented publicly at great length. The leftist papers praised the Soviet achievement and ridiculed American "anxiety" and "panic." More conservative papers predicted an acceleration in the great power arms race and concluded that other nations should be even more hesitant to align themselves with either the West or the USSR. Other Arab comment generally followed the Egyptian reaction, with more moderate language. The American embassy in Tehran has reported that both Iranian officials and the public are beginning to suspect that the USSR is at least equal to the United States or perhaps superior in the long run, thus weakening the Iranian will to resist the Soviet Union. Officials have been embarrassed to bring up the subject of the satellite, apparently feeling that its launching represents such a blow to American prestige that to discuss it would be impolite.

The Israeli press was unanimous in seeing sputnik as a major prestige victory for the USSR which will have an important effect on "underdeveloped peoples"--the Arabs--which tend to set their course according to demonstrations of strength by the great powers.

Indian Prime Minister Nehru stressed that new scientific

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developments have antiquated present-day politics and foreign policies and rendered such things as the Baghdad pact obsolete.

Reaction in Southeast Asia is still spotty, but the press generally hailed the satellite as a great accomplishment. Some neutralist sources commented that this development emphasized the urgent need for the peaceful application of science and cessation of the arms race.

A leading Japanese newspaper acknowledged that the USSR had scored a propaganda victory with the satellite as it did with the ICBM. A Japanese military expert commented that the satellite demonstrates the superiority of Soviet technology and that it was aimed at turning world opinion on disarmament to Moscow's advantage. (Prepared jointly with OSI)

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FRENCH POLITICAL CRISIS

Premier-designate Rene Plevén's failure to resolve left-right differences lessens chances for an early resolution of the nearly two-week-old government crisis. President Coty may now turn toward a center Popular Republican candidate, or give Socialist leader Guy Mollet another try at the premiership. As the crisis lengthens, the possibility increases that General de Gaulle will return to the political scene.

Left-center Resistance Union leader Rene Plevén's proposal for a "national union government" without the Poujadists or Communists and his request for a one-year political truce failed to win the broad political support he demanded, and he gave up following the decision by the 45 orthodox Radical Socialist assembly members not to participate. President Coty reportedly has no new candidate immediately in mind but may, as a matter of form, ask a center Popular Republican--such as ex-minister Pierre Pflimlin or parliamentary leader Robert Lecourt--to try. Observers see little possibility that either of these men will get sufficient support.

The possibility that Mollet may get a second try at the premiership has increased, and although his chances of success are believed to be dimmer than at the beginning of the crisis, his party may be reluctant to offer full support to any other candidate in the interim. Moreover, the Socialist position may have hardened following renewed Independent attacks on the economic program which have canceled out efforts by Mollet and Independent leader Duchet to keep party antagonisms in check. A right-center government without the Socialists has also been proposed, but no leader for such a coalition is as yet apparent, and such a move would in any case be likely to meet strong opposition from the Popular Republicans.

Although the French public's restiveness over the Algerian issue and economic problems has temporarily abated, deterioration in these spheres coupled with a prolonged cabinet crisis might swing substantial public opinion in favor of returning General de Gaulle to power by legal means. Duchet, an astute politician, claims that the general with a few key officers and police could take over by

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force without much initial opposition but that he has so far refused to consider using force. De Gaulle has intimated to the press that he would return only

by constitutional means, and at present assembly deputies are not responsive to the idea.

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MIDDLE EAST DEVELOPMENTS**UN Discussions**

Debate over Syria's relations with the West and with its Arab neighbors went on in the meetings and corridors of the UN in New York last week. The general effect has reinforced the impression previously created by King Saud's travels and pronouncements that the Arabs, however bitter their differences with each other, feel compelled publicly to maintain a united front against outsiders, especially the West. Although the lead-off speech of the Saudi delegate, ex-Palestinian Shukayri, was thought to have left the other Arabs with "nothing to say," both the Syrian and Egyptian foreign ministers managed to castigate Western, especially American, policy in terms that belied their privately stated desire for improved relations.

These events have already made it difficult for friendly Arab nations to support the West fully on other UN issues. Lebanese Foreign Minister Malik believes the unfavorable atmosphere generated by these attacks will develop to a point where the Arab world, probably including Iraq and Jordan and perhaps Lebanon, might take positions favorable to the USSR.

Iraq's decision not to co-sponsor the Western disarmament

resolution, according to the chief Iraqi UN delegate, stemmed largely from a desire to maintain a balance between its pro-Western policy and its membership in the Arab group. The same argument was presumably behind Lebanon's decision not to be a cosponsor at this time, although the Lebanese delegate said his government may decide to cosponsor it later.

Arab reaction to Syrian Foreign Minister Bitar's strong and bitter policy statement of 7 October was varied, but most friendly Arabs were agreed that the American rebuttal should be "calm, reasoned, and compassionate." The Iranian UN delegate had earlier advised the American delegation that it would be undesirable openly to oppose manifestations of Arab nationalism since such opposition increases their intensity and has an over-all adverse effect on the attainment of free-world objectives.

Additional debate on the Syrian issue may be in prospect, since Bitar has protested to UN Secretary General Hammarskjold over alleged "massing" of Turkish troops on the Syrian-Turkish border.

Syria and Its Neighbors

Internally, the leaders of the various Syrian civilian

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and army factions appear to be having a breathing spell in their continuing maneuvers to improve or protect their positions. Externally, the regime seems to have legitimized itself still further in the eyes of even conservative Arab leaders.

King Saud informed the American embassy in Jidda that his trip to Damascus was "very successful," and his statements and instructions to his representatives indicate he believes he is following a "wise policy" in trying to moderate Syrian actions by private persuasion rather than public pressure. With this conviction, and with his chronic dissatisfaction over American policy on the Gulf of Aqaba question, Saud is likely to emphasize the need for Arab unity instead of specifically supporting pro-Western elements during his long-planned state visit to Lebanon which began on 10 October.

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Iraq

An Iraqi cabinet change to remove Prime Minister Ali Jawdat's "summer government"

in favor of a more decisively pro-Western one seems more likely

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Nuri Said, former strong man and prime minister, reportedly left Istanbul for Baghdad early in October; Nuri's relations with Crown Prince Abd al-Ilah, Iraq's leading "cabinet maker," may still not be good enough to lead to his return to office.

Soviet Moves

The USSR apparently appreciates the anti-Western potential of an Arab common front and has moved at the highest level to convince the Arabs that vigorous neutralism is their best course. Khrushchev has warned publicly of the possible "dire consequences" of local hostilities in the Middle East, which might lead to World War III.

Khrushchev's remarks over the past week, following the speech of the Saudi representative in the United Nations and the Arab meetings at Damascus, apparently reflect increased confidence in Moscow's position in the Middle East. Both Khrushchev's remarks and Soviet propaganda have suggested that attempts at "interference" in Syria by its non-Arab neighbors backed by the United States had brought on the apparent Arab unity.

Moscow is still standing on its April and September recommendations for a four-power declaration renouncing the use of force and interference in the Middle East, but has privately revealed its willingness to hold discussions which would

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include a possible arms embargo. A Soviet official in East Berlin stated on 2 October that the Middle East was the "most important international problem at the moment" and that Moscow is prepared to join with the "major powers and Arab nations" in discussions. The USSR would probably attempt to use such discussions as a propaganda forum to further Arab unity against the West. Khrushchev also alluded to a possible arms embargo in his 7 October interview with James Reston.

Israeli Foreign Minister Meir reported receiving "frightening" warnings against taking precipitous action from Soviet Foreign Minister Gromyko on 30 September. Since the first public report of these warnings was by Cairo radio, they were probably made largely for their propaganda effect on the Arabs. In addition, Soviet Ambassador Abramov, in an unusual round of private talks with Israeli government officials and politicians during the past ten days, has been stressing the need for a four-power agreement in the Middle East.

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PART II

NOTES AND COMMENTS

THE SITUATION IN POLAND

The Polish regime, without making any concessions, has succeeded in restoring order in Warsaw after five consecutive nights of demonstrations in the center of the city. The action of the regime in banning the student liberal magazine Po Prostu and in quelling the subsequent demonstrations probably weakened student and intellectual support for Gomulka.

The fact that the general populace did not join the demonstrations indicates acceptance of the need to continue with Gomulka even though dissatisfaction among important segments of the population with internal conditions has been increasing.

Stalinist Natolin opponents in the Polish United Workers' (Communist) party may try to seize on the demonstrations as evidence that Gomulka's liberal policies have failed and may hope to win support from the rank and file on this issue. However, such arguments may not be effective since rank-and-file party members will be impressed by Gomulka's success in quelling the demonstrations without making concessions. In fact, Gomulka's position in the party may be strengthened since his actions will have demonstrated to many party members that he is virtually indispensable.

There has been no evidence that Soviet forces were alerted or that the Kremlin prepared to intervene in the Polish situation. Although there has been no comment from the USSR on the events in Warsaw, Gomulka's demonstrated ability to control a potentially explosive situation should be a mark in his favor. His firm but unprovocative handling of the delicate situation may serve not only to allay any Soviet concern over Gomulka's policies, but also to convince Soviet leaders of his unique qualifications for leadership in troublesome Poland.

While the regime demonstrated its ability to maintain order, there is little reason for optimism among Poland's Communist leaders. They are now confronted with the difficult problem of attempting to meet popular demands for free expression and to gain the support of students and intellectuals without permitting the criticism that Gomulka considers harmful to his regime.

The banning of the outspoken student mouthpiece, Po Prostu, the action which sparked the demonstrations, was Gomulka's most drastic step so far in his efforts to curb liberal writers--some of them party members--whose articles had sometimes cast doubt on the validity of communism itself. The students' reaction to the ban reflected the strong feeling that their support of the successful Gomulka coup last October entitled them to a voice in shaping the new Poland. The regime's move to curb the students will make even more

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difficult its attempts to organize the Polish youth. Furthermore, if student demands are not at least partially met, there may be further demonstrations.

The population probably considers that the events of the past week in Poland demonstrate Gomulka's reluctance to permit any further liberalization. This attitude may diminish the popular support which has been Gomulka's main source of strength. There is, however, still no alternative for Poland. Most Poles realize this and would probably, under these circumstances, continue to tolerate the Gomulka regime.

But there is great danger in the apathy and demoralization which, already serious, may now increase. A chaotic situation may develop which could seriously affect production, jeopardize Gomulka's hard-won and limited support from the West, weaken his bargaining position vis-a-vis the Soviet Union, and, if serious disorders occurred, lead to a situation in which he would be obliged to restore full police oppression to control it. Cardinal Wyszynski, with his sobering sermon on 6 October, once again did Gomulka a service by calling on the people to "remember that our country is in a difficult situation" and exhorting them to work hard for the future.

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SOVIET DISARMAMENT TACTICS IN UN GENERAL ASSEMBLY

The USSR continues to press the nuclear test ban issue in the current UN General Assembly debates in an effort to capitalize on public clamor in many smaller nations for conclusion of some type of quick disarmament agreement. This pressure has been given added emphasis by the world-wide publicity accompanying the recent demonstrations of rocket and hydrogen weapons advances.

Khrushchev's statement on 7 October that the USSR is willing to bring the earth satellite and pilotless missiles under international control in a comprehensive disarmament agreement is further calculated to encourage acceptance of Soviet disarmament proposals. On 18 March the Soviet Union had proposed inter-

national control over guided rockets capable of carrying nuclear warheads as part of the second step of a general disarmament agreement.

The USSR is also seeking a formal resolution calling for agreement by the nuclear powers not to use atomic or hydrogen weapons for a five-year period. Moscow is treating this as a major departure from its previous demand for a permanent ban and apparently expects to help achieve by this means a substantial propaganda victory on the disarmament issue.

Another feature of the Soviet campaign in the UN emphasizes the desirability of expanding the membership of the Disarmament Commission and its subcommittee. India's resolution urging expansion of these bodies

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presumably will enjoy full Soviet support. On 25 September, Gromyko discussed this question with the Austrian foreign minister and mentioned Austria as a possible candidate for a seat on one or both of the enlarged bodies.

Still another move in the Soviet campaign in the UN was made by the Polish and Czech delegations on 2 October when they agreed to prohibit the manufacture and stockpiling of nuclear weapons on their territories if the two German states take the same step. The USSR has made similar proposals since early 1956; and, judging from unofficial reactions by West European states, this move may result in considerable pressure on the West

German government and attract attention for Soviet proposals for a European security system.

The USSR is expected to maintain the increased pressure on smaller nations which has resulted from the series of events over the past week. Launching of another earth satellite is expected soon, perhaps on or before the 40th anniversary of the Russian revolution on 7 November. Other technical advances, such as a nuclear-powered surface vessel, may be unveiled. Meanwhile, official spokesmen for the regime will probably continue in an alternately truculent and accommodating manner to create a sense of emergency and frustration over the disarmament deadlock.

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COLONIAL ISSUES AT 12TH UN GENERAL ASSEMBLY

The anticolonial sentiment of the Asian-African and Latin American blocs in the United Nations is likely to focus on the Algerian question at this session of the General Assembly. Formal discussion of this issue is still some weeks off. Other colonial issues to be debated include the Cyprus question and the problem of West New Guinea.

Last year's General Assembly adopted a moderate compromise resolution on the Algerian question which expressed the hope that a "peaceful, democratic, and just" solution would be found. The almost unanimous support for this resolution was primarily based on a general UN feeling that the Mollet government's plans offered a reasonable prospect for advancing an Algerian settlement and that the UN should avoid taking any action which might hamper the proposed French program.

Failure of the Bourges-Maunoury government's reform

plan for Algeria will result in a strong offensive led by Arab, Asian, and African members who will demand more forceful UN action than that taken last year. UN debate on Algeria is not likely to occur until mid-November because the assembly's political committee is expected to discuss the lengthy subject of disarmament as the first of its seven assigned items for debate.

The Cyprus question was inscribed on this year's agenda without vote. The original Greek request for a discussion of self-determination for Cyprus and alleged British atrocities on the island was reworded simply to "The Cyprus Question." Greece raised no objection to the reformulation of the title on 20 September on the understanding that the item "covered all aspects." This year the assembly is likely to call for a resumption of negotiations among the parties principally concerned with the

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problem, as it did last year. The efforts toward a solution conducted by NATO Secretary General Spaak, combined with some British initiatives toward negotiation, will probably aid in ameliorating debate on this subject. Archbishop Makarios may attempt to influence the delegates but is unlikely to be invited to present his views formally.

Twenty-one members of the Asian-African bloc have again requested that the question of the status of West New Guinea

(West Irian) be discussed at this assembly. At the 11th General Assembly, a resolution calling for the appointment of a good-offices commission to mediate the dispute failed to achieve two-thirds majority support. Bitter opposition on the part of the Netherlands and Australia to any UN intervention in the dispute is likely to lead most UN members to believe that this dispute between Indonesia and the Netherlands might better be solved by bilateral negotiations. [REDACTED] 25X1

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THE SITUATION IN ARGENTINA

The 30-day state of siege imposed on 5 October in the Argentine capital and the surrounding province of Buenos Aires was designed to prevent further Peronista labor disorders and possibly also to quiet fears of the military that the provisional Aramburu regime is too lenient with its enemies.

The suspension of constitutional guarantees was immediately utilized to round up Peronista labor leaders who had been agitating for a follow-up to the partially successful general strike of 27 September and were believed backing a 4 October workers' march to protest recent layoffs. The non-Peronista unions had been strongly resisting Peronista attempts to involve their members in protest strikes against the government's wage freeze, but were believed to be losing ground in the face of the government's inability to roll back the cost of living.

Although the government's show of toughness probably

strengthened its immediate position against both Peronista and other radical elements and the ultraconservative segments of the military, a serious new problem arose almost immediately from the actions of the Constituent Assembly. The assembly's drafting committee presented a proposal --opposed by conservative army groups--to prevent private or foreign investment in the fields of fuel and power.

The government has been pleading with foreign investors to assist in reconstructing the seriously debilitated Argentine economy and has also recently asked for a new rehabilitation loan from the United States as a gesture of political support. The cabinet has taken the position that the government must soon find a way to offer the public some measure of relief from the prospect of continuing economic and political turmoil and reportedly resents Washington's "failure" to offer large-scale developmental credits for this purpose. [REDACTED] 25X1

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THE SITUATION IN HAITI

The position of Haiti's military junta has declined markedly as a result of the government's demonstrated inability to deal competently with political and economic problems. Unless the trend is reversed, chaos and bankruptcy could well result.

Increased popular alarm has resulted from the death of a US citizen at the hands of the Haitian police on 29 September and the issuance of an unprecedented government decree on 1 October authorizing Haitians to arrest or kill on sight anyone listed by the government as an enemy of the state. Thus far no lists have been issued. Foreign communities in Port-au-Prince have exhibited hostility toward the junta and a "general disgust" with the situation. Mulatto elements, which have been subjected to brutal persecution since the 22 September elections, have become extremely bitter toward the junta. Many Haitians reportedly feel that the curtailment of US economic aid announced on 4 October may have been a result of the government's failure to offer an acceptable explanation of the American's death.

The approaching inauguration of President-elect Duvalier, reportedly scheduled for next week, has sharpened speculation

concerning the army's future role in politics. There is widespread belief that the army plans to retain control of the government and that Duvalier will, for the present, follow the army lead. In view of the mounting antagonism toward military rule, any specific indication that this is the case could result in public disorders.

Should defeated presidential candidate Louis Dejoie persist in his announced intention of contesting the election in the courts, the junta will be faced with another potentially explosive situation. If Dejoie is denied a hearing, his supporters might attempt another shopkeepers' strike or engage in public demonstrations. They have reportedly been joined by some backers of the rabble-rousing Daniel Fignole, who was ousted from the presidency in June.

Political dissension threatens to weaken further the economic situation. The tourist industry, Haiti's second most important source of foreign exchange, has already been seriously curtailed. Despite elaborate measures to balance the budget and control government expenditures, Haiti's financial situation is desperate, and the immediate outlook is for a further deterioration. 25X1

PRE-ELECTION SITUATION IN GUATEMALA

With the approach of the Guatemalan election on 20 October for a full-term successor to the late president Castillo Armas, revolutionary plotting by both rightists and leftists threatens the continuation

of the present government's middle-of-the-road policies.

The administration candidate, pro-American former Supreme Court president Miguel Ortiz Passarelli, has the backing

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of the government's powerful political machine, the National Democratic Movement (MDN). With almost unlimited government funds and the proved ability of government forces to dominate the voting in rural areas, his victory, if the election is held, seems assured, despite his lack of personal political appeal and a growing popular dislike for the MDN's roughshod tactics. Ortiz' chief rival, rightist General Miguel Ydigoras Fuentes, is expected, however, to attract a large vote.

The 9,000-man army, the key to the political situation, is not united. The powerful defense minister, Col. Juan F. Oliva, helped choose Ortiz Pasarelli as the official candidate and appears committed to the holding of elections. He seems confident of his control of the army. He has many opponents among high officers, however, who reportedly resent his present dominant role in the army and the government.

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ICELAND FACING DECISION ON SOVIET LOAN

The Icelandic government will soon have to decide whether to negotiate loans with several of its NATO allies and agree to their conditions on economic reforms, or to accept a Soviet offer of long-term loans and export credits of up to \$24,500,000, which has been made ostensibly free of conditions. The country is committed to an ambitious program of economic development and cannot long continue this program without further foreign assistance.

The Soviet offer was made over six months ago. In early July, Iceland's NATO representative called the attention of Secretary General Spaak to his country's economic situation and the undesirability of its being obliged to accept economic assistance from the USSR. Spaak dispatched a fact-finding mission to Iceland and, on the basis of its recommendations for \$9,000,000 of financial assistance, has sounded out various NATO countries regarding loans. Five of them have

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indicated willingness to consider participating in a coordinated lending plan, but Foreign Minister Gudmundsson opposes such a plan as looking too much like "hat-passing" and giving foreign parliaments an opportunity to discuss Iceland's internal affairs. He prefers loans from the United States, West Germany, and Canada.

The proposed Western loans would require Iceland to follow the recommendations of the OEEC for a determined effort to halt inflation by curtailing the domestic demand which has been induced by high wages and over-investment. The economic stabilization program would also require a reorientation of Iceland's exports, some 30 percent of which went to the Soviet bloc last year. Unless Iceland is to continue exporting approximately two thirds of its

frozen fish to the bloc, it must make its fish products more competitive and develop marketing facilities in Western Europe--moves requiring the assistance of OEEC countries in reducing tariff barriers, quotas, and other obstacles to the free flow of trade.

For political reasons, the government is reluctant to curtail the economic development program; it hesitates to resort to domestic deficit spending to keep the projects going. Since the Soviet loan would not entail sundry politically unpalatable measures, Foreign Minister Gudmundsson may be subject to considerable pressure to accept Soviet aid. The opening of parliament and a number of party conferences this month may bring the issue to a head. 25X1
(Concurred in by ORR)

NORTH AFRICA

Popular feeling in Libya and Tunisia has been aroused by repeated incursions into these states by French military units based in Algeria. Apparently the French were intent on liquidating suspected concentrations of Algerian rebels, but the widespread sympathy which exists for the Algerians could be incited to serious rioting which might not be easily controlled by the Kubaar and Bourguiba governments.

Libya

The most recent flare-up in the area was the 3 October attack by French forces on a Libyan village near the Algerian border, where the French claim a large number of Alge-

rian rebels have been given sanctuary. The Libyan government responded to the attack by publicly denouncing the "aggression" and requesting British military aid under the provisions of the Anglo-Libyan treaty of 1953.

A demonstration in Benghazi on 6 October displayed strong anti-Western feeling, with speakers demanding abrogation of the French-Libyan treaty of friendship as well as a reconsideration of relations with Britain and the United States. The Libyans reportedly have sent a battalion south from the Tripoli area, and press reports of 8 October claim that France has sent reinforcements to Fort Polignac near the Libyan border.

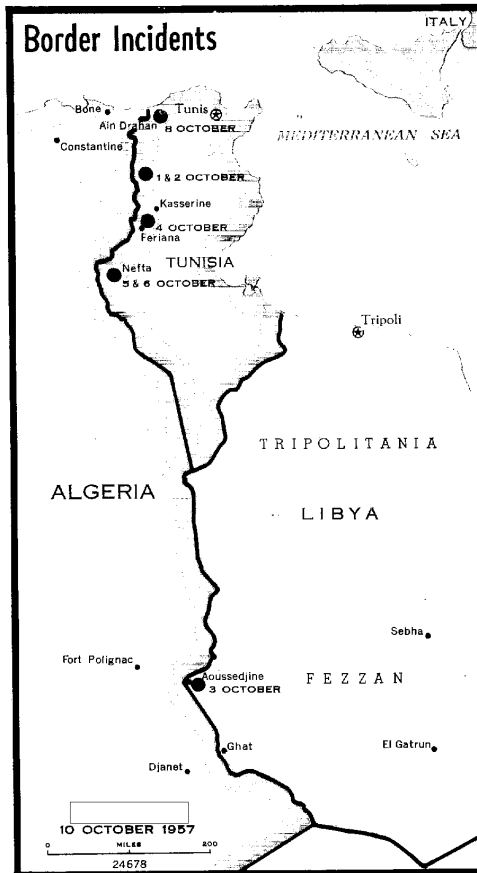
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The situation in Tunisia remains critical despite the release of some popular tension through well-disciplined countrywide demonstrations, staged to protest the 1 and 2 October strafing by the French air force of a Tunisian village on the Algerian border. They also served to endorse President Bourguiba's pro-American policy and to reinforce his demands for arms and for the evacuation of French troops from Tunisia.

The absence of violence enabled Bourguiba to cancel the recall of his ambassador to Paris. Discussions are now under way to attempt to prevent further violations of Tunisian territory by French military forces based in Algeria. The last incident occurred on 7 October when French troops in northern Algeria opened artillery fire on the Tunisian post at El Hemra near Ain Draham.

Paris remains adamant that during the government crisis it can neither release arms to Tunisia itself nor give its assent to arms sales by its allies. Italian Foreign Minister Pella admits that Italy is "dragging its feet" pending a resolution of the French political crisis in the hope that a new government will give the "green light" to arms sales.



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Algeria

In Algeria, the American consul general believes that the 7 October rebel attack on Sidi-bel-Abbes, headquarters city of the French Foreign Legion, where four rebel groups simultaneously opened fire in various sections of the city, confirms that the rebels are adopting more daring tactics. Despite the Sidi-bel-Abbes attack, there is yet no indication that the National Liberation Front intends to exploit the fall of the French government by stepping up terrorism as it did during the government crisis last June.

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PEIPING SEEKS INCREASED INVESTMENT BY OVERSEAS CHINESE

The State Council of Communist China recently issued a directive aimed at increasing the amount of investment in mainland projects by Overseas Chinese by guaranteeing "preferential treatment" for such investors. By broadening the number of those who have a stake in economic development on the mainland, Peiping probably expects to increase its adherents abroad.

Peiping intends to continue to funnel Overseas Chinese funds into the consumer goods industries located along the southern coast in Kwangtung and Fukien Provinces. Land reclamation and other projects on Hainan Island have also been mentioned as prospective areas for Overseas Chinese investments. Most Chinese immigrants in Asia are from these areas of the mainland, and Peiping probably calculates that its promise to foster local industries in these regions would have additional appeal to prospective investors.

The new directive is part of a recurring effort on Peiping's part to create the impression among Overseas Chinese that their economic interests on the mainland will not be jeopardized by Communist control of the economy. Chinese shareholders abroad are guaranteed annual dividends of 8 percent. In the past, however, this income could not be withdrawn from the mainland but had to be reinvested in state en-

terprises or bonds or paid to dependents or relatives on the mainland. These conditions attracted few investors.

The new decree allows up to half the 8-percent dividend to be withdrawn in foreign currency "with the permission of officials controlling foreign exchange." Investors are also advised that their shares can be liquidated in Chinese Communist currency after 12 years but cannot be remitted abroad.

Peiping is appealing to patriotism in soliciting new investment funds from Chinese abroad. In commenting on the new decree, the People's Daily emphasized that the Overseas Chinese "fasten their hopes" on the independence and "might of the motherland." Although patriotic slogans will not of themselves elicit a substantial increase in funds, some Overseas Chinese may feel that investment in Communist China would be prudent political insurance for the future. At the same time, prosperous Overseas Chinese may regard investments in Communist China as a hedge against possible political or economic reverses in their countries of residence.

Peiping's attempts to increase Overseas Chinese investments will undoubtedly cause some resentment in host countries that could affect its diplomatic relations with those countries. (Continued in by ORR)

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NEW JAPANESE COMMUNIST PARTY PLATFORM

The draft revision of the Japanese Communist party platform, scheduled for consideration at the party's national convention next February, em-

phasizes peaceful revolution and "respectability" in an effort to expand popular support, promote the formation of "united fronts" with labor and

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farmer groups, and strengthen the trend toward cooperation with the Socialist party. The new platform formalizes the policy which the party has in fact been pursuing since mid-1952 and could influence the Japanese public, whose attitude is conditioned by the activity of the Japanese Communists, to be more receptive to overtures from Peiping and Moscow.

The initial impetus for revision of the party policy adopted in 1951, which endorsed violent revolution, arose from public hostility to party terroristic activities which culminated in the 1952 May Day riots. The proposed new platform will bring the party's official policy into harmony with the "parliamentary revolution" doctrine adopted by the Soviet 20th party congress in February 1956.

The new platform adopts the principle of collective leadership by abolishing the post of first secretary--now held by Sanzo Nosaka--and replacing it with a committee.

Younger groups within the party who favor revolution by

violence will probably try to block acceptance of the new platform at the national convention. The party leaders, however, feel confident that the program will be adopted and that their own position will not be threatened.

The Communists probably believe that formalization of the peaceful policy would enhance the position of left-wing extremists in the Socialist party who favor cooperation with the Communists.

The latest estimates place the Communist party membership at approximately 90,000, with nonmember sympathizers ranging from 160,000 to 300,000. The party polled 2 percent of the popular vote in the national election of February 1955 and now holds two seats in each house of the Diet.

While the party does not now exercise any great influence, the Japanese Communists will note that the Indian and Indonesian Communist parties have successfully expanded their popular support after adopting similar policies of peaceful revolution.

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THAILAND FACES PERIOD OF POLITICAL UNCERTAINTY

Thailand has entered a period of political uncertainty as a result of the bloodless army coup d'etat of 16 September. The preceding ten years of stability--and prosperity--resulted largely from Premier Phibun Songkram's unmatched skill in balancing contending factions within the ruling clique.

The primary task of Field Marshal Sarit, the new de facto ruler of Thailand, will be to mediate the sharp conflicts of interest which are already arising among his immediate subordinates in Thailand's new military oligarchy. Friction is

reported between his two top followers, Defense Minister General Thanom, and Interior Minister General Prapat, which might easily develop into a rivalry similar to that between Sarit and former police director general Phao.

While Sarit has revealed unsuspected political acumen during the past six months, he has yet to demonstrate the strength of will and the aptitude for political infighting necessary to keep internal stresses from getting out of hand. His uncertain health may also be an important factor limiting his effectiveness.

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Sarit must also face the growing demand for reform voiced by educated Thai and by the King without alienating his military backers, who hope to exploit their new-found power. He cannot completely renege on his public promise of a "new deal" for the Thai people.

Sarit may have to reach an agreement with conservative former premier Khuang Aphaiwong, whose proroyalist Democratic party stands a good chance of winning the parliamentary elections scheduled for mid-December. In 1948, Khuang was forced out after a short term as premier when the then ruling clique found his honesty and independence embarrassing to its full enjoyment of the spoils of power.

Alert to exploit any schisms within the military or between Sarit and the royalists will be Thailand's small but articulate group of leftist politicians and newspapermen

who advocate a neutralist policy calling for a repudiation of SEATO and closer relations with the Communist bloc. While not actually a strong political force, the leftists were able, by sheer stridency, to instill in the Phibun regime an exaggerated fear of their influence. Since the coup, they have continued to press their campaign loudly without interference from the new regime.

Thailand's orientation will become clearer after the December elections and the installation of a permanent government. Unless the military junta and the Democratic party can form a workable coalition backed by the King, a period of prolonged political instability may result, punctuated by actual or threatened coups and counter coups. Such internal strife might well be accompanied by a weakening of Thailand's anti-Communist and pro-Western position.

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INDONESIA

Indonesia's dissident provincial leaders have been working to promote interregional cooperation ever since the conclusion of last month's round-table conference in Djakarta. The basis for such cooperation is the so-called "Palembang charter" drawn up by the dissident leaders at a meeting in South Sumatra prior to the Djakarta conference. This charter called for the restoration of the Sukarno-Hatta partnership, greater provincial autonomy, and the outlawing of communism.

Recent reports indicate that the dissident leaders are receiving encouragement from Moslem leaders--particularly for their opposition to commu-

nism. At a recent gathering in Sumatra, Moslem priests threatened to invoke spiritual sanctions against Moslems who became Communists.

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Another new element in the situation is the possibility that former vice president

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Hatta may be losing his restraining influence over the dissident commanders. They are said to feel that Hatta's performance at the Djakarta conference was "clumsy" and that he was outmaneuvered by President Sukarno.

Meanwhile, instances of violence have been reported from the Medan area of North Sumatra in an apparent reaction to the recent arrest by the territorial commander of a pro-Communist regimental commander. Members of the Communist-led "village defense corps," which the latter had armed, have clashed with police and army units. In addition, elements of the relieved officer's regiment reportedly have threatened some action. The territorial commander, while nominally progovernment, has been showing increasing sympathy toward the local advocates of provincial autonomy.

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PART III

PATTERNS AND PERSPECTIVESSOVIET-YUGOSLAV RELATIONS

Yugoslavia has recently been more accommodating in its relations with the USSR than at any time since Khrushchev's trip to Belgrade in May 1955. This has come about because of Khrushchev's willingness to submerge or compromise his differences with the Yugoslavs in order to strengthen the unity of the Communist movement, and because of Tito's conviction that the Soviet leader sincerely desires to implement their agreements,

While this new era of Soviet-Yugoslav good will has not threatened the internal independence of the Yugoslav regime, it limits Belgrade's freedom of action in the international arena. Belgrade asserts that its new relationship with Moscow should not stand in the way of continuing good relations with the West, however, and recently has voiced concern over the unfavorable Western press reaction to its rapprochement with the USSR.

Background

Belgrade and Moscow apparently concluded last spring that their dispute, which developed following the unrest in Eastern Europe the previous fall, was hindering the cause of "socialism." Khrushchev, on the occasion of the April visit to Moscow of Tito's foes, Albanian leaders Hoxha and Shehu, declared that the polemics between the Soviet bloc and Yugoslavia must end. Tito replied at once in a major speech that he foresaw the end of the dispute--"perhaps soon."

These expectations seemed unfounded when, at the congress of Yugoslav workers' councils in Belgrade late in June, Tito

accused certain elements in the Soviet bloc of paying only lip service to improving relations with Yugoslavia. Tito's remarks were immediately supported by an editorial in Borba, the leading Yugoslav paper, which was reminiscent of those in the Yugoslav press at the height of the polemics with Moscow the preceding winter.

However, immediately after the announcement in Moscow on 3 July that Molotov had been removed, for reasons including the charge that he had obstructed the development of an accord with the Yugoslavs, Tito's two top aides, Vice Presidents Kardelj and Rankovic, were dispatched to Moscow to determine Khrushchev's intentions. Arrangements probably were made at this time for the meeting which Tito and Khrushchev held in Rumania in August.

Despite Belgrade's belief that Stalinists continued to operate within the Kremlin, Yugoslav propaganda media again began to support Khrushchev and his policies. His extemporaneous remarks at Prague in July slurring the Yugoslavs were ignored in the Yugoslav press and in public statements. Shortly thereafter Moscow again extended to Yugoslavia the \$250,000,000 in credits which had earlier been promised and then withheld.

Rumanian Meeting

At their meeting in Rumania on 1 and 2 August, Khrushchev appears to have impressed Tito that he had a sincere desire to better Moscow-Belgrade relations and eventually to permit more independent regimes in Eastern Europe. He may have indicated to Tito that his support of leaders who the

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Yugoslavs feel are tarred with the Stalinist brush is only temporary.

Khrushchev reaffirmed the Belgrade declaration of 1955 and the accord signed by the Soviet and Yugoslav Communist parties in Moscow in 1956. The problem of unity among the Communist states and socialist movements of the world was also discussed.

Balkan Conference Proposal

Khrushchev probably instigated Rumanian Premier Stoica's proposal on 10 September to convene a conference of Balkan states to discuss peace and increase cooperation in the area. Tito's prompt and favorable reply and the fact that Rumanian Deputy Premier Bodnaras had visited Belgrade in late August suggested that advance discussions between the Yugoslavs and the Rumanians had been held. The Yugoslavs have pointed out privately, however, that Belgrade would not participate without the Greeks and that the wording of Tito's reply was otherwise carefully qualified. The Greeks officially refused to take part at this time, but Belgrade felt that Greek Prime Minister Karamanlis' statement was conducive to bettering relations among Balkan states.

Areas of Agreement

Yugoslav support of the USSR has most frequently been manifest in the field of foreign policy. During periods of strain between Belgrade and Moscow, Belgrade has avoided being identified clearly with Soviet policies, since 1955 the trend has been generally to associate itself with Soviet international positions. Tito formally acknowledged the areas of agreement in the course of his meeting with Gomulka in mid-September.

On some foreign policy matters, however, the Yugoslavs

have been careful, in their propaganda at least, not to offend the West. In commenting on the breakdown of the London disarmament talks, the Yugoslavs have not adopted the anti-West stand taken by Soviet and satellite propaganda. Yugoslav treatment of reports that the USSR has developed an ICBM has not resembled that of the bloc, and their coverage of Little Rock has been generally objective.

The only major Soviet foreign policy on which Belgrade still withholds support is recognition of the East German regime. In announcing last week that it would hold trade talks with East Germany at the governmental level, Belgrade may hope to satisfy Moscow temporarily in the matter without the risk of weakening its economic ties with West Germany.

On ideology, it appears that a moratorium on public discussion has been agreed to. The 1956 Moscow declaration called for an exchange of experiences and constructive criticism, but neither Belgrade nor Moscow has risked disturbing the new accord with "friendly" debate. During his talks with Gomulka, Tito acknowledged the "leading role of the USSR in the socialist world" but observed that it was merely the first country to develop "socialism."

Yugoslav Motivation

The Yugoslav Communists have never relished their isolation from the Communist world. Their intense nationalism, however, precludes any association which would jeopardize their political independence. They regard Khrushchev as the answer to their dilemma.

Tito appears to believe that Khrushchev, if not embarrassed in his policies now, will ultimately work out a

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policy with respect to Eastern Europe which will be in accord with Yugoslav views. Belgrade does not advocate the internal democratization of Communist regimes, but rather the relaxation of Moscow's controls over them to permit their independent development.

The presence of sentiment favorable to the West in the Yugoslav party and the threat this poses to the party's long-term control may also motivate Tito's desire for a closer association with the USSR. The trial of Milovan Djilas, in conjunction with his recent book, The New Class, would seem to have been directed primarily at liberal elements in the Yugoslav Communist party to emphasize that the acceptance of his thesis or similar attacks on communism will not be tolerated.

Tito knows, on the other hand, that there are no guarantees that Khrushchev will survive what Belgrade defines as his "Stalinist opposition"; thus, complete Yugoslav association with the USSR seems for the present precluded by the need to maintain flexibility should Khrushchev fail.

Soviet Motivation

Soviet moves since last spring to restore the pre-Hungary rapprochement with Yugoslavia have been governed by Moscow's determination to consolidate and maintain the unity of the world Communist movement under Soviet leadership. Moscow's major objective is to prevent Yugoslavia from establishing itself as a rival center of authority and leader of a new Communist grouping independent of Moscow.

To achieve this objective, the Soviet leaders are seeking to limit Belgrade's freedom

of maneuver in the satellites by drawing the Yugoslav leaders closer to the bloc and committing them to accept the discipline and obligations of "Communist unity."

Soviet pronouncements on Soviet-Yugoslav relations since last spring have centered on the themes of Communist solidarity and fidelity to Marxism-Leninism--euphemisms for acceptance of the "leading role" of the USSR. Khrushchev in his 8 August speech in East Germany said the talks with Tito would help unify the Communist movement.

Khrushchev's personal prestige and position are deeply involved in the policy of rapprochement with Tito. He appears to have argued from the beginning that to maintain the USSR's pre-eminent position in the Communist world, major readjustments would have to be made in relations with the independent Communist regimes in China and Yugoslavia. Khrushchev's commitment to go forward with this course was strengthened by the charges leveled against Molotov last June that he had opposed the rapprochement with Tito. Any reversal in this policy of accommodation now would imply Khrushchev's responsibility for the errors which led to the troubles in Poznan, Warsaw, and Budapest.

Khrushchev, however, has no intention of making far-reaching adjustments which would impair the substance of Soviet control over the satellites. Khrushchev's purpose apparently is simply to combine minimum accommodations to the positions of Peiping, Belgrade, and Warsaw with an ideological structure which will preserve the USSR's pre-eminent position and contain the threat posed by national communism.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****10 October 1957****STATUS OF SOVIET AIR-BORNE FORCES**

The USSR has improved the capabilities of its air-borne forces with the introduction of better equipment, new techniques, and intensive small-unit training. The major deficiency--lack of heavy transport aircraft--will be remedied over the next few years.

The USSR has a well-trained force of about 100,000 air-borne troops--most of whom are organized into approximately ten divisions--and sufficient air transports to deploy nearly two divisions in a single lift or over five divisions in a maximum effort using civil aircraft. Some of these air-borne troops are believed organic to rifle and mechanized divisions and capable of being formed into small air-borne detachments for use in short-range missions and as advance elements in air landing operations.

In addition to the active air-borne troops, there are probably 100,000 trained reservists who are qualified parachutists. Civilian interest in parachuting is maintained through 100 paramilitary air clubs which train 10,000 parachutists each year.

Organization

Air-borne forces are believed to be part of the "Reserve of the High Command" under the operational command of the General Staff of the Soviet Army and Navy in the Ministry of Defense. Administratively, the ground units of the air-borne forces are probably subordinate to the ground forces and are under the command of Lt. Gen. V. F. Margelov, whose name has been mentioned in connection with the air-borne activities at recent air shows. The transport units--designated Aviation of Air-borne Troops--are subordinate to the air force under the command of Marshal of

Aviation N. S. Skripko, who heads all military transport aviation.

Tactical Employment

Soviet tactical doctrine favors the use of small air-borne drops for seizing limited objectives in conjunction with major armored thrusts. Small air-borne detachments are also trained for rear area reconnaissance and for the sabotage of nuclear weapons bases. The doctrine calls for air-borne drops--once adequate heavy transport aircraft become available--at a depth of 90 to 120 miles inside enemy territory in conjunction with major ground offensives, to forestall an enemy withdrawal and to block reinforcement by strategic reserves. An airhead established at this depth could be reinforced by air-transported line divisions.

The doctrine assumes that logistical problems and the lack of heavy armor and support weapons make imperative a link-up with the advance columns of the ground offensive within five days. After link-up, air-borne forces would probably be withdrawn for replacement of equipment and personnel in preparation for further operations, since air-borne divisions are neither manned nor equipped for sustained duty on the line.

Soviet forces engaged in only limited air-borne operations in World War II. Since then, the lack of firm evidence of movement or maneuvers involving large air-borne units indicates that higher staffs have not gained much practical experience in coordination and control of air-borne operations.

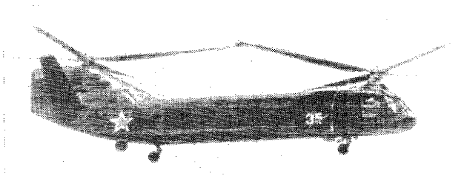
Transport Aircraft

The work horses of Soviet air-borne forces are the CAB, COACH, and CRATE light transports.

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These have a restricted range and no capability for making heavy equipment drops. A prototype of a new assault transport, the CAMP, was on view for the first time at the Moscow air show in 1956. Powered by two turboprop engines, it has an estimated maximum payload of 30,000 pounds and a range of

**HORSE HELICOPTER**

1,235 nautical miles. It is believed to have a rear-loading ramp which would permit the loading and unloading of heavy equipment.

Transports powered by four turboprop engines are probably in the testing stage. When these transports become available, the air-borne capability of the USSR will be materially increased. In the interim, at least 180 B-29 type BULL medium bombers have been converted into cargo aircraft and assigned to units of Aviation of Air-borne Troops.

The USSR continues to use gliders for its air-borne forces, but they will probably be phased out and replaced by helicopters. Soviet helicopters developed since 1950 compare favorably with their Western counterparts. They are available for assault landings, supply operations, evacuation of casualties, fire direction, reconnaissance, and liaison in conjunction with air-borne operations. The HARE utility helicopter is well suited for liaison and medical evacuation. The HOUND cargo helicopter can carry 3,200 pounds within a radius of 80 nautical miles and its clamshell rear doors

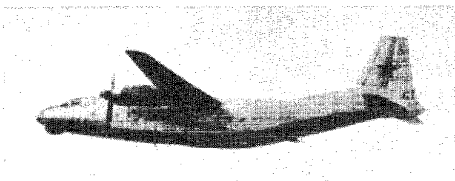
permit rapid loading and unloading of heavy equipment such as jeeps or field artillery pieces.

The HORSE heavy-cargo helicopter first appeared in 1955 and was observed the following year participating in river-crossing maneuvers in East Germany. Its 36-foot cargo hold is equipped with a hydraulically operated ramp door and will accommodate 8,800 pounds of cargo or 40 troops. An improved model of the HORSE was to have taken part in this year's canceled air show at Tushino.

The next major stride in helicopter research and development will probably be the introduction of a gas-turbine engine. A Czechoslovak newspaper recently reported that the USSR was soon to test a gas-turbine-powered helicopter and that a helicopter with jet rotorblade tips was under development.

Equipment

To reduce dispersion of units on the ground after air drops from high altitudes, several new parachutes have been developed which descend more rapidly and can be guided more easily than conventional types.

**CAMP TRANSPORT**

In such an operation, each man has two parachutes: a large square main one that opens immediately and a smaller one that opens automatically within 100 feet of the ground to reduce swaying and to break the fall. The use of two parachutes increases the chance of malfunction, and some work is being

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done on improving their safety. The parachute system for supplies is the so-called "double vertical" which consists of a large canopy above a smaller one.

Many of the new standard infantry weapons are readily adaptable to air-borne use. Some attention has been given

to the problem of transporting heavy support weapons. Two models of a new 57-mm. self-propelled antitank gun displayed in the May Day parade this year were marked with air-borne insignia and can be transported by air.

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EUROPEAN FREE TRADE AREA PROPOSALS AND THE COMMON MARKET

The ministerial meeting of the Organization for European Economic Cooperation (OEEC) from 16 to 18 October is expected to make the first formal effort to accommodate Britain's proposals for a European free trade area with the treaty commitments of six OEEC members to join their economies in a Common Market. Britain and most of the six Common Market powers agree that such an accommodation would greatly advance their respective national interests, but differences of principle and procedure between the supranational Common Market and the voluntary cooperation concepts of the free trade area are so sharp that little room for satisfactory compromise is thus far evident.

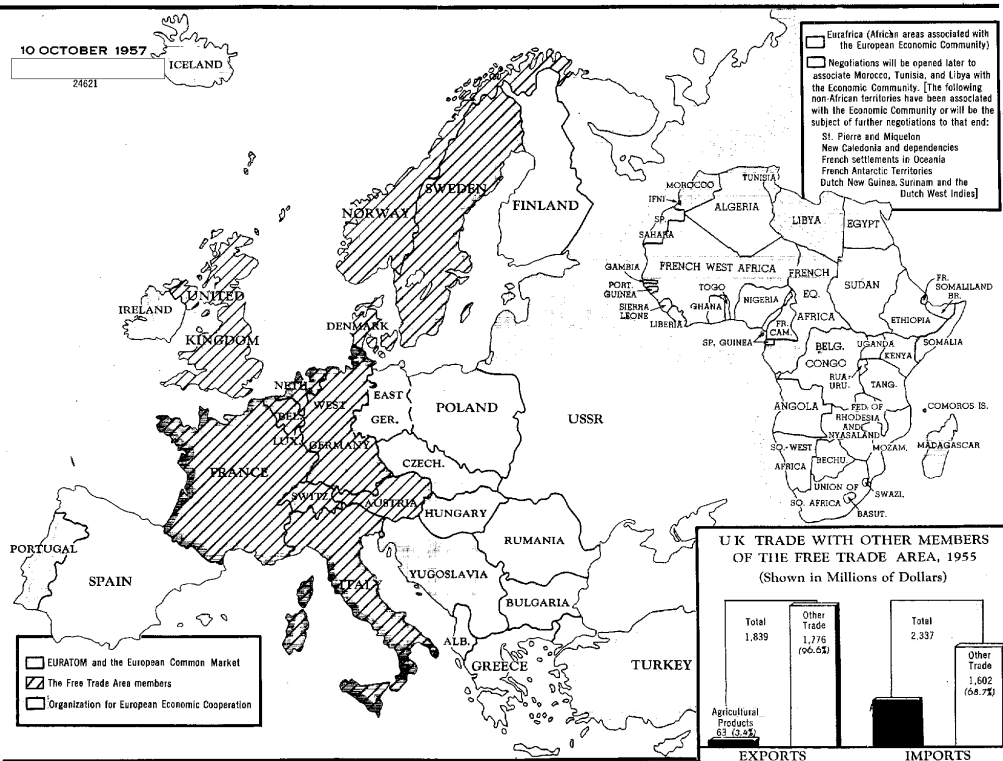
Britain's Proposal

As it has become increasingly evident that the Common Market will come into force on 1 January, Britain has pressed with corresponding insistence for OEEC ministerial consideration of a European free trade area that would include and be closely associated with the Common Market, while also initially covering such other countries as Austria, Switzerland, and the Scandinavian nations--most of the other OEEC countries would probably come in later.

Britain balks at full participation in the Common Market--in effect an economic union involving supranational institutions and requiring a common external tariff which would preclude the preferential tariff relationships Britain maintains with the other Commonwealth countries. At the same time, Britain fears to stand completely aloof because of the great competitive advantage that would accrue to West Germany if the United Kingdom were entirely on the outside and because the Common Market area is itself considered to be the world's fastest growing outlet for foreign exports.

The free trade area proposal is Britain's bid for special advantages in both European and Commonwealth trade. Under this proposal the participating countries, while gradually eliminating their tariffs against fellow members as in the Common Market, would remain free to determine their own tariffs against outsiders. Britain further proposes to exclude agricultural commodities from the operations of the free trade area so as to continue its preferential tariff rates on such imports from Commonwealth members and retain the advantage of preferentially lower tariffs in Commonwealth countries for British manufactures.

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Behind these proposals lie important political and economic considerations. "Imperial preference," though providing only a 5- to 10-percent reduction in tariff rates, has had great significance as a symbol of Commonwealth unity, and talk of its modification has in recent months aroused serious concern both in the House of Commons and in Commonwealth capitals. Britain's exports to the Commonwealth are far greater than those to the Common Market area, averaging about \$12 billion annually. These exports, however, have shown little change since 1950 and may decline with the Commonwealth countries' drive for self-sufficiency. In the same period, however, British exports to the Common Market area rose from \$700,000,000 per year to \$1.1 billion.

Continental Attitude

The six Common Market nations, while gratified at Brit-

ain's readiness to link itself more closely to the Continent, have reservations about the proposals on both political and economic grounds. The United Kingdom's desire to limit the integration process in the free trade area to intergovernmental agreements on tariff rates and other forms of trade liberalization impresses many of their leaders as basically an attempt to apply 19th century economic concepts. The Common Market countries reason that the many forms of governmental intervention in modern economic life--such as state trading, use of subsidies, and differential pricing between domestic and export markets--can frustrate the effects of tariff removal. Accordingly, they contend that central institutions comparable to those of the Common Market, in that they operate without national veto, are essential to administer the rules of the free trade areas.

Much of the momentum, moreover, behind the Common Market

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project results from the belief that economic union will eventually lead to political union. Many integration leaders believe the free trade area proposal involves a risk to the political advance so far achieved through the Coal-Steel Community, EURATOM, and Common Market treaties toward an eventual federated Europe.

The sharpest objections, however, have been those raised by Britain's insistence on excluding agricultural products from the operations of the free trade area. This has led to widespread charges that the United Kingdom designed the free trade area proposal to obtain Common Market benefits without according reciprocal advantages. Trade data lend some support to this contention: tariffs would be removed from 97 percent of Britain's exports to the free trade area but, with agriculture excluded, from only 69 percent of its imports.

Continental countries, particularly France, Italy, the Netherlands, and Denmark, refuse to accept the free trade area proposal without agriculture. They insist that they are entitled to freer access to Britain's domestic foodstuffs market in return for the prospective freer entry of the United Kingdom's manufactures into their home markets.

UK's Position on Agriculture

Britain urges in reply that it already has lower agricultural tariffs than most OEEC countries, thus permitting them substantial access to the UK market. It also points to provisions in the Common Market treaty which look toward establishment of an internal preferential area for agriculture that would not only levy a relatively high tariff on agricultural products but also regulate production and marketing

in contravention of the rules of the General Agreement on Tariffs and Trade (GATT), unless GATT were to authorize a waiver.

The United Kingdom itself would also require a waiver from GATT rules to permit the exclusion of agricultural products from the free trade area trade liberalization. Britain now hopes to use the GATT waiver procedure as a basis for compromising the differences with the Common Market countries on the agricultural problem. By this compromise, GATT would be asked to consider both applications for waiver simultaneously and, by making a series of compensatory awards to each side for damage done its trade by the other's infraction of the rules, eventually achieve a commodity-by-commodity agreement on agricultural tariffs in the free trade area. Such a commodity-by-commodity approach could also remove many of the Commonwealth countries' objections, since a substantial proportion of their agricultural exports to the United Kingdom do not directly compete with European exports.

The OEEC Meeting

Britain wants early action on its free trade area proposals because it believes that once the Common Market is a going concern, concessions to the free trade area will be more difficult to obtain. France, which as a traditionally high-tariff country would be forced to make extensive concessions, has been taking a very dilatory attitude toward the free trade area negotiations. Convinced that time is on its side because the Macmillan government is committed politically to the free trade area and needs the Common Market export outlet, the French are talking only of an agreement some time in 1958 which would come into effect two or

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three years later, perhaps on an experimental basis confined to a limited number of products.

The United Kingdom finds these proposals entirely unacceptable, and the American embassy in London foresees a possibly bitter struggle between the two countries at the OEEC meeting. Britain is hoping that West Germany will persuade

the other five Common Market countries to accept its comprehensive free trade area arrangement. American Ambassador Butterworth, accredited to the European Coal-Steel Community, doubts that even a strong German initiative will be able to sway the Common Market countries to accept the free trade area in its present form.

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RECENT SUEZ CANAL DEVELOPMENTSCanal Traffic

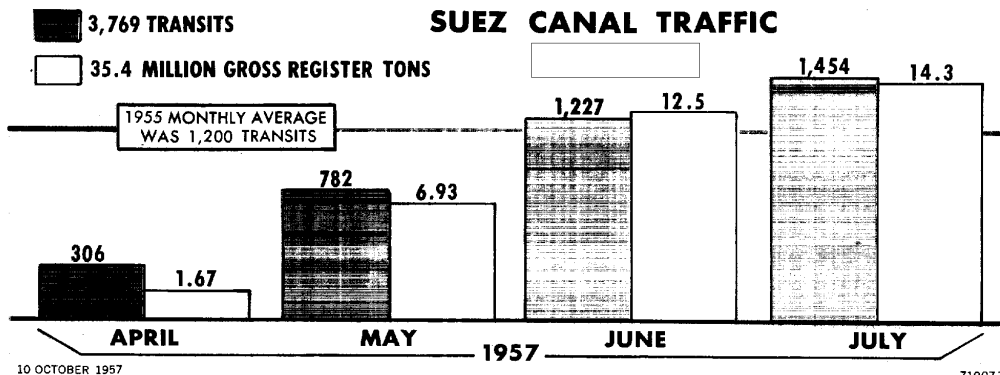
The volume of traffic on the Suez Canal since July has probably exceeded the pre-nationalization monthly average by 15 to 20 percent. In July, the last month for which complete statistics are available, 1,454 transits were made for a total gross register tonnage of 14,289,747; the September figures will probably be about the same. This compares with a monthly average of 1,200 in 1955, the last full year of normal operation.

While the Egyptian administration of the canal seems to

be effective enough to handle a large volume of traffic, Cairo's maintenance standards are somewhat lower than those of the former administration, and the Egyptians may not maintain the maximum draft clearance in the canal. The Egyptian government plans, however, to deepen the canal from the present 33 feet to a 35-foot maximum draft by January.

Finances

The present high volume of canal traffic should increase markedly the financial returns for Egypt. Prior to nationalization the annual return to Egypt



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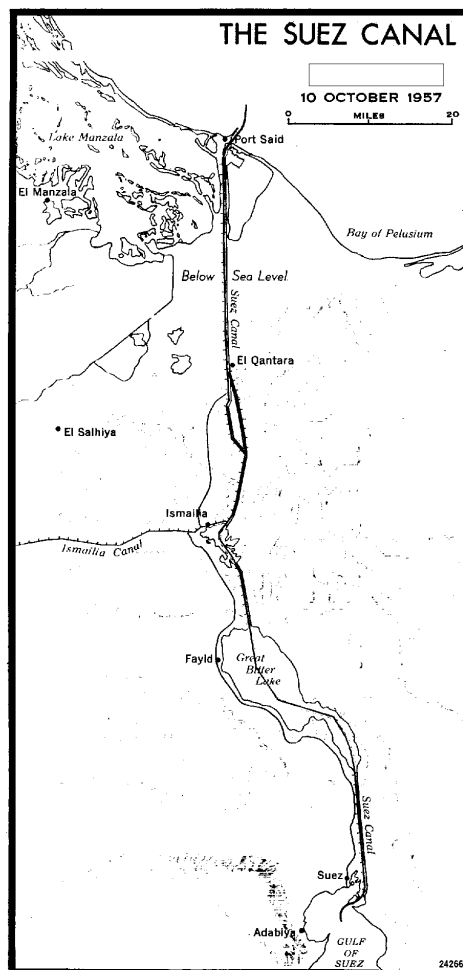
from the old Suez Canal Company had risen to approximately \$7,-000,000--about half paid as a percentage of profit and half in taxes. If Egypt sets aside funds for maintenance and expansion on a scale similar to that of the old company, its remaining income should equal approximately this amount, plus the sum of dividends and interest formerly paid by the company to its creditors and shareholders. On this basis Egypt could expect an income of about \$37,000,000 a year. Perhaps as much as \$10,000,000 more would be available if the Egyptians scrimp on maintenance and expansion and fail to provide a fund to compensate the canal company shareholders.

Egypt will not, however, get such sums this year. The back salaries of the pilots and maintenance crews and similar expenses have probably not yet been offset by revenues. During April, May, and June, the total canal tolls received by the Cairo regime amounted to only \$13,489,000. Since July, however, canal receipts are probably averaging about \$8,-000,000 monthly, approximately the prenationalization level.

Under these conditions, and as long as the present canal toll rates are maintained, the maximum income which can accrue to Egypt will fall considerably short of Nasir's July 1956 claim of \$100,000,000 a year. However, the present level of tolls is only about half the level which the former company was authorized by its charter to charge. By raising tolls to the maximum authorized, Egypt probably could obtain an amount approaching the \$100,000,000 figure.

Current Negotiations

The Suez Canal Users' Association--originally set up to collect tolls, arrange a boycott of the canal, or nego-



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tiate with Nasir, depending on the member governments' points of view--is now nearly defunct. Its chief concern at present is discussing UN Secretary General Hammarskjold's plan to develop a program whereby users of the canal would repay those countries which advanced money and services for canal clearance. The latest proposal to have a voluntary assessment on shipowners using the canal appears to have little support.

The old Suez Canal Company has failed to obtain compensation for its nationalized assets. These assets in Egypt are valued, according to the company's 1956 report, at about \$220,000,000.

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Egypt's position is that it does not recognize the existence of the old company and therefore cannot discuss compensation with it. Egypt has offered, however, to discuss compensation with chosen representatives of the shareholders. This position appears to be an Egyptian device to avoid bringing matters to a conclusion at this time, although Foreign Minister Fawzi has stated that

his government will move ahead on the problem.

With regard to Israeli shipping, Egypt's policy has reverted to the status quo before the invasion of Sinai. Israeli-chartered vessels and others carrying Israeli cargo are permitted to pass if cargo is not judged contraband. No vessel flying the Israeli flag has sought to use the canal since it was reopened.

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RECENT PETROLEUM DEVELOPMENTS IN ISRAEL

Since the Suez crisis last November, Israel has considerably improved its petroleum storage, transport, and production position. Petroleum storage capacity has been dispersed and increased by about 30 percent over 1956. The 8- and 16-inch crude pipeline from Eilat to Wadi Sukreir is in operation, and a 6-inch products pipeline from Haifa to Tel Aviv was recently completed. Crude production from Israel's Heletz field continues to increase, and a new field is believed to have been discovered. Despite this improvement, Israel is vulnerable because of its almost complete dependence on imports of Iranian crude oil, as the Shah of Iran is being subjected to repeated requests from Arab countries to halt further exports to Israel.

Israel relies almost entirely on petroleum for its energy requirements and, with very limited domestic production, must depend increasingly

on imports to keep its economy going and to implement its ambitious development program. Assuring a secure source of imports has been a major government concern.

In the last year, Israel's supply pattern has undergone a considerable readjustment.

ISRAEL: PETROLEUM IMPORTS 1956

U. S. BARRELS

COUNTRY OF ORIGIN	CRUDE OIL	FUEL OIL	AVIATION GAS	GASOLINE	KEROSENE	TOTAL
IRAN	5,797,531					5,797,531
USSR	920,494	1,799,887				2,720,381
VENEZUELA		246,588	52,034			298,622
U. S.			72,303	43,894	62,426	178,623
FRANCE				11,373	5,347	16,720
TOTAL	6,718,025	2,046,475	124,337	55,267	67,773	9,011,877

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Before the Suez crisis, the Soviet Union supplied, largely in fuel oil, about 30 percent of Israel's total petroleum imports. Almost 70 percent consisted of imports of crude oil from Iran, and small amounts of refined imports came from France, the United States, and Venezuela. When Moscow refused to ship petroleum following the

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Sinai invasion, Israel increased its imports from Iran and Venezuela. With the opening of the Gulf of Aqaba and the construction of the Eilat-Wadi Sukreir pipeline, Israel has become more dependent on crude shipments from Iran. In this situation, Israel faces the continuing possibility that international political factors beyond its control will disrupt its sources of supply.

Arab Pressure

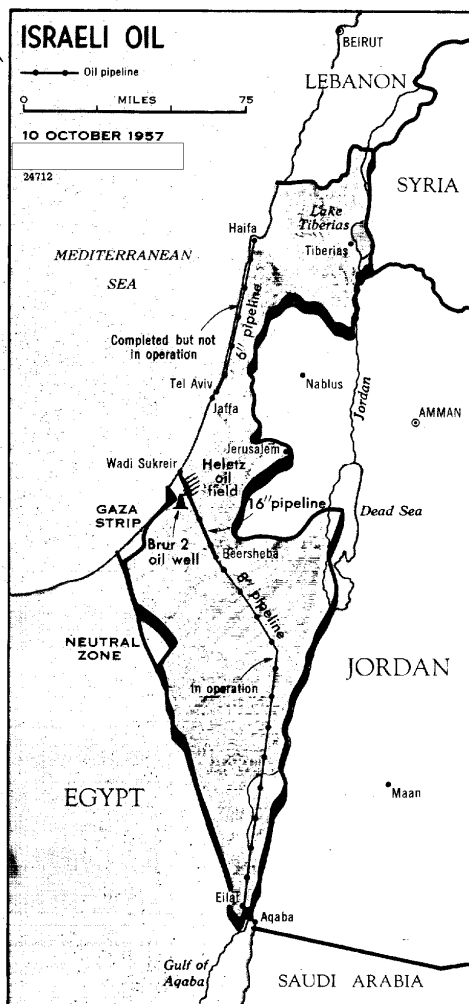
In his effort to halt the flow of Middle East oil to Israel, King Saud recently sent memorandums to the Shah of Iran and the other rulers in the

Persian Gulf area. Saud informed them he would not allow one drop of oil for Israel to pass through the Gulf of Aqaba, and added that he had considerably strengthened his forces on the gulf coast. Saud referred to an assurance he had earlier received from the Shah that the National Iranian Oil Company had been ordered to prevent shipments of Iranian oil to Israel. Such shipments continue, however, and there is no evidence that Iran will be any more receptive to Saud's latest appeal than to his earlier ones.

The recent decision of the British oil companies to dispose of their marketing facilities in Israel provoked Israeli charges that the decision was aimed at "appeasing" the Arabs. Officials of British Petroleum and of Royal Dutch Shell, while admitting that political considerations were a factor, assert that operations in Israel had become progressively less profitable, particularly in view of the privileges given the government-owned Delek company. While British companies had offered to continue to import Venezuelan crude, the Israeli government had introduced new political complications by insisting that only Iranian crude oil be imported and that it be received at Eilat. In effect, this would have required the British companies to support Israel's disputed rights to the Gulf of Aqaba. Shell and British Petroleum apparently felt that this involved too great a risk in view of their larger interests in the Arab states.

The discontinuance of British shipments of Iranian crude oil to Israel will probably not reduce total imports of crude from Iran since Delek reportedly has what it considers "ironclad" contracts with the National Iranian Oil Company for a substantial quantity--at least 4,000,000 barrels--of crude oil.

Cessation of British activities will, however, impose

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an additional burden on the government's already heavily over-extended foreign exchange commitments. Payment for British imports of Iranian crude had been made through a triangular arrangement with Germany whereby reparations payments due Israel were used to pay the British companies. The government's foreign exchange budget--now some \$200,000,000 in the red--will be further strained by the additional expenditure of millions of dollars now required to purchase more Iranian crude.

Storage and Distribution

The Israeli storage, transportation, and distribution system has undergone considerable change. Increased storage facilities--built in part for military considerations and in part as an adjunct to the new pipelines--have raised total storage capacity to the equivalent of about 90 percent--approximately 9,300,000 barrels--of Israel's annual fuel requirements.

The bulk of Israeli storage capacity is in the Haifa-Tel Aviv area. Storage capacity at Eilat is estimated to be about 262,250 barrels not counting the additional 45,000 barrels stored in the 8-inch line to Beersheba. An estimated 40,500 barrels storage capacity is at Beersheba, the terminus of the 8- and 16-inch lines. Wadi Sukreir, terminus of the 16-inch line, has about 457,500 barrels capacity, not including about 45,000 barrels in the line itself.

Despite the considerably increased storage capacity, 30 percent over last year, it is estimated that because of transportation difficulties actual civilian supplies of petroleum products still average only from 3 to 14 weeks' reserve.

Distribution of products within Israel is now mainly under government control. The government-owned Delek company, which formerly controlled about 50 percent of the distributing facilities, now is likely to expand its share to about 75 percent. The remaining 25 percent will probably continue, at least for the time being, to be handled by American interests.

Domestic Production

There are about 12 small organizations exploring for oil in Israel, and virtually the entire country is under concession. None of the major oil companies, however, is active there, and the prospects for substantial oil finds are slight. Commercial quantities of oil were discovered in Israel in September 1955, and, by September 1957, 22 wells had been drilled, and the Heletz field was producing a total of about 1,300 barrels per day. Domestic output, however, constitutes less than 5 percent of Israel's requirements of about 27,000 barrels per day, and because of technical problems, it is unlikely the Heletz production will exceed 2,000 barrels per day, or about 7 percent of present requirements.

Additional impetus has been given Israeli exploration activities following the discovery last June of a new field at Brur 2, about one mile south of the Heletz field. Test production on the discovery well suggested a flow similar to wells in the Heletz field. The reserves of the Heletz field are variously estimated at between 8,000,000 and 10,000,000 barrels of proved reserves and as high as 50,000,000 barrels of probable reserves. Even the probable reserves constitute only about five years' supply, since Israel is consuming over 10,000,000 barrels of petroleum annually.

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